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MOBILIZATION OF FINANCIAL RESOURCES FOR UNIDO PROGRAMMES

Report by the Director-General

Summary

Provides information on UNIDO efforts to develop new sources of funds from within the United Nations system and governmental donors and on how the Organization has responded with new approaches to facilitate those efforts.

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Introduction

1. In compliance with General Conference resolution GC.6/Res.15, the present document reports on the measures taken to enhance cooperation within the United Nations system and with all donors with the aim to increase the volume of voluntary contributions.

I. NEW SOURCES OF FUNDS

2. More than before, in the 1994-1995 biennium UNIDO systematically addressed all categories of potential donors. While the Industrial Development Fund (IDF) and its donors continue to constitute the core of UNIDO extrabudgetary funds, specialist units were established in 1994 to systematically address development finance institutions, various sources of funds within the United Nations system other than the United Nations Development Programme (UNDP) as well as the industry sector.

3. This initiative was timely in view of the rapidly declining role of the UNDP indicative planning figure (IPF) as the central fund for technical cooperation in the United Nations system. For UNIDO this source of funds decreased from over 55 per cent ($88.7 million) of technical cooperation delivery as recently as 1990 to 28.7 per cent ($29 million) in 1994 and 19.2 per cent ($20.8 million) in 1995. UNDP-funded activities are now largely implemented through national organizations and UNDP field offices and the Office for Project Services. Only a small share of IPF is delivered using the specialized expertise of United Nations agencies for either project execution or project implementation. In addition, UNDP resources have been under serious pressure.

4. However, development of new regular sources of funds for UNIDO activities is a time-consuming process. In a number of cases, legal agreement is required as a first step before cooperation can be envisaged. In addition, the review and approval process required by the new donor might be very long. In the 1994-1995 biennium, a number of initiatives were started that are now coming to fruition. The main ones are summarized below.

5. In respect of Governments as donors—until now mainly from the relevant ministry for international cooperation through IDF—efforts have been made to broaden access to other ministries as well as multi- and bilateral sources. These efforts are starting to produce results. Further activities include approaching donors of non-convertible currencies to provide part of their contributions in convertible currencies and contacting recipient Governments with a view to mobilizing self-financing of high-priority activities. In addition, consultations with the European Union have been ongoing since 1994 with the expectation of an agreement in the course of 1996 that will open the way for cooperation and funding.

6. With regard to development finance institutions, UNIDO has participated in negotiations with the World Bank on the formulation of a standard agreement between the borrowers of World Bank funds and United Nations agencies. This will further facilitate involvement in the implementation of loans in areas of UNIDO expertise that until now has been based on the UNIDO model agreement. In some recent cases the World Bank approached UNIDO directly with requests to provide specialized services. Negotiations with the Inter-American Development Bank, initiated in 1994, resulted in the signature of an agreement on 5 February 1996. This breakthrough will make it possible for UNIDO to implement loan components and other technical cooperation financed by the Inter-American Development Bank. Some large-scale projects are likely to be signed during 1996. Initial discussions were already undertaken by the Director-General with the African Development Bank with a view to signing a similar agreement.

7. Within the United Nations system, UNIDO is working actively with the Common Fund for Commodities (CFC) to develop a portfolio of projects. Currently, projects worth $11 million are ready for approval. These are fully within the thematic priority of the agro-processing industry. Efforts are also being made to accelerate the project negotiation process for CFC projects. Similarly, focused efforts have been undertaken to develop a substantial pipeline of projects for financing from the Global Environment Facility. Five projects totalling $15 million are in an advanced stage, and some approvals are expected in the current year. Further, cooperation with the United Nations Children's Fund in the area of salt iodization, specifically by small-scale salt producers, is expected to lead to new approvals. Finally, UNIDO is trying to sustain the success of the Organization in recent years with the Multilateral Fund for the Montreal Protocol.

8. Regarding the industrial sector itself, a recent initiative to develop contacts with a number of large international enterprises will be actively pursued, not only in order to improve contacts with industry in general but also specifically with a view to mobilizing resources in support of UNIDO activities.

9. Another innovative approach is being tested with a first attempt to use a debt-swap to finance priority development projects in one Member State. This modality can be used successfully only for activities with a high local cost component.

II. CHANGED MODALITIES

10. The focusing of UNIDO on selected thematic priorities with high potential and developing a critical mass of expertise and a consistent approach to these priority areas is also expected to improve funds mobilization. The concentrated development of a limited number of high priority large-scale programmes and projects will facilitate early contacts with all categories of prospective donors and, where appropriate, involve such donors in the programme development phase.

11. The new approach—with more enhanced consultation with Governments, beneficiaries and other relevant parties—is expected to lead to a higher quality of proposals. This will also be achieved by ensuring productive teamwork within the Organization. In turn, this higher quality and level of participation is likely to induce stronger donor interest.

12. The new approach whereby funds mobilization efforts are integrated in the programme/project development phase and in part delegated to the programme development teams, allows a changed organizational structure for funds mobilization. A small central unit will concentrate on global sources of funds—such as IDF or CFC—available to UNIDO as a whole, not linked to specific countries or regions, and will coordinate efforts of regional desks and programme teams. At the same time, most funds mobilization work will be undertaken by country officers, specifically for all funds available to or accessible at the country level. Programme- or project-specific funds mobilization will be the task of the whole team (albeit focused in one specific team member). It is anticipated that this approach will improve the responsiveness of the Organization, both to recipients as well as to donors, and strengthen the capacity of UNIDO to mobilize funds.

13. In order to translate the thematic priorities into actual country-level programmes, IDF resources will have to play a central role. Sufficient freely programmable resources are essential to enable UNIDO to undertake the preparatory analytical and consultative phase required to develop tailor-made comprehensive programmes under the seven thematic priorities at the country level. IDF should also be the main source of funds for financing core parts of programmes developed to attract complementary funding from other sources. Attaining the long-standing IDF target of $50 million per year established by the policy-making organs, of which $10 million would make up the general-purpose convertible segment, must be considered essential to cover the priority areas and attract sufficient complementary resources.

III. ACTION REQUIRED OF THE BOARD

14. The Board may wish to consider adopting the following draft decision:

"The Industrial Development Board:

"(a) Recalls General Conference resolution GC.6/Res.15;

"(b) Takes note of the report of the Director-General contained in document IDB.15/7;

"(c) Reiterates its decision IDB.14/Dec.13 on the Industrial Development Fund;

"(d) Encourages the Director-General to develop with the various categories of donors different modalities of funds mobilization, e.g. pledging against a thematic priority for programming by UNIDO;

"(e) Further encourages the Director-General to expand contacts with industrial enterprises with a view to mobilizing funds in support of UNIDO activities."